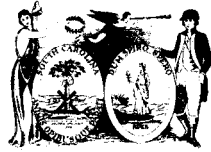


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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May 28, 2004

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

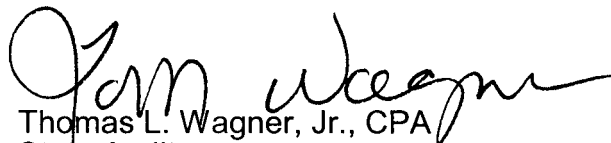
Re: AC# 3-MNC-J1 – Heartland of West Ashley Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**HEARTLAND OF WEST ASHLEY
REHABILITATION AND NURSING CENTER
CHARLESTON, SOUTH CAROLINA**

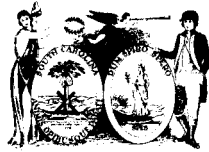
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-MNC-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 6, 2004

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Heartland of West Ashley Rehabilitation and Nursing Center, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Heartland of West Ashley Rehabilitation and Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Heartland of West Ashley Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Heartland of West Ashley Rehabilitation and Nursing Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 6, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-MNC-J1

01/01/03-
09/30/03

Interim Reimbursement Rate (1)	\$128.35
Adjusted Reimbursement Rate	<u>93.44</u>
Decrease in Reimbursement Rate	\$ <u><u>34.91</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-MNC-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.46	\$63.44	
Dietary		8.18	11.63	
Laundry/Housekeeping/Maintenance		<u>7.10</u>	<u>10.22</u>	
Subtotal	<u>\$5.97</u>	57.74	85.29	\$57.74
Administration & Medical Records	<u>\$ -</u>	<u>15.87</u>	<u>12.63</u>	<u>12.63</u>
Subtotal		73.61	<u>\$97.92</u>	70.37
<u>Costs Not Subject to Standards:</u>				
Utilities		3.34		3.34
Special Services		.11		.11
Medical Supplies & Oxygen		3.45		3.45
Taxes and Insurance		1.28		1.28
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$81.85</u>		78.61
Inflation Factor (3.70%)				2.91
Cost of Capital				10.17
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.22)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$93.44</u>

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,745,094	\$ -	\$144,921 (4) 155,279 (5) 6,785 (5) 183,520 (7) 31,042 (7) 3,488 (8)	\$1,220,059
Dietary	337,640	-	14,443 (5) 87,877 (7) 192 (8)	235,128
Laundry	48,697	-	2,790 (5) 12,509 (7)	33,398
Housekeeping	158,984	852 (6)	9,648 (5) 48,049 (7)	102,139
Maintenance	103,088	542 (6)	3,314 (5) 30,682 (7) 1,128 (8)	68,506
Administration & Medical Records	672,169	3,060 (6)	38,817 (4) 21,646 (5) 1,846 (5) 92,897 (7) 14,638 (7) 49,430 (8)	455,955
Utilities	139,785	733 (6)	44,255 (7) 356 (8)	95,907
Special Services	3,168	-	-	3,168
Medical Supplies & Oxygen	123,390	-	19,794 (3) 670 (5) 3,663 (7)	99,263

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-MNC-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	179,427	931 (6)	127,410 (2) 15,847 (7) 278 (8)	36,823
Legal Fees	2,479	13 (6)	679 (8)	1,813
Cost of Capital	314,626	1,199 (6) 50,986 (9)	57,098 (1) 10,691 (7) 6,927 (8)	292,095
Subtotal	3,828,547	58,316	1,242,609	2,644,254
Ancillary	171,167	-	-	171,167
Nonallowable	533,658	57,098 (1) 127,410 (2) 19,794 (3) 183,738 (4) 216,421 (5) 575,670 (7) 62,478 (8)	7,330 (6) 50,986 (9)	1,717,951
Total Operating Expenses	<u>\$4,533,372</u>	<u>\$1,300,925</u>	<u>\$1,300,925</u>	<u>\$4,533,372</u>
Total Patient Days	<u>28,733</u>	<u>-</u>	<u>-</u>	<u>28,733</u>
Total Beds	<u>82</u>			

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$1,165,070	
	Other Equity	63,268	
	Nonallowable	57,098	
	Fixed Assets		\$1,228,338
	Cost of Capital		57,098
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	127,410	
	Taxes and Insurance		127,410
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
3	Nonallowable	19,794	
	Medical Supplies		19,794
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
4	Nonallowable	183,738	
	Nursing		144,921
	Administration		38,817
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2102.3		
	DH&HS Expense Crosswalk		
5	Nonallowable	216,421	
	Nursing		155,279
	Restorative		6,785
	Dietary		14,443
	Laundry		2,790
	Housekeeping		9,648
	Maintenance		3,314
	Administration		21,646
	Medical Records		1,846
	Medical Supplies		670
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	852	
	Maintenance	542	
	Administration	3,060	
	Legal	13	
	Utilities	733	
	Taxes and Insurance	931	
	Cost of Capital	1,199	
	Nonallowable		7,330
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	575,670	
	Nursing		183,520
	Restorative		31,042
	Dietary		87,877
	Laundry		12,509
	Housekeeping		48,049
	Maintenance		30,682
	Administration		92,897
	Medical Records		14,638
	Utilities		44,255
	Taxes and Insurance		15,847
	Medical Supplies		3,663
	Cost of Capital		10,691
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	62,478	
	Nursing		3,488
	Dietary		192
	Maintenance		1,128
	Administration		49,430
	Legal		679
	Utilities		356
	Taxes and Insurance		278
	Cost of Capital		6,927
	To adjust home office cost allocation HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	50,986	50,986
	To adjust capital return State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>2,529,263</u>	\$ <u>2,529,263</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>82</u>
Deemed Asset Value	3,151,342
Improvements Since 1981	1,858,312
Accumulated Depreciation at 9/30/01	<u>(2,502,942)</u>
Deemed Depreciated Value	2,506,712
Market Rate of Return	<u>.0577</u>
Total Annual Return	144,637
Return Applicable to Non-Reimbursable Cost Centers	(10,311)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1</u>
Allowable Annual Return	134,327
Depreciation Expense	168,493
Amortization Expense	-
Capital Related Income Offsets	(34)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(10,691)</u>
Allowable Cost of Capital Expense	292,095
Total Patient Days (Minimum 96% Occupancy)	<u>28,733</u>
Cost of Capital Per Diem	\$ <u><u>10.17</u></u>

HEARTLAND OF WEST ASHLEY REHABILITATION AND NURSING CENTER

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MNC-J1

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.96
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.95</u>
Reimbursable Cost of Capital Per Diem	\$10.17
Cost of Capital Per Diem	<u>10.17</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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